



Darcy L. Endo-Omoto
Vice President
Government & Community Affairs

May 18, 2009

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PUBLIC UTILITIES
COMMISSION

The Honorable Chairman and Members of the
Hawaii Public Utilities Commission
465 South King Street
Kekuanaoa Building, First Floor
Honolulu, Hawaii 96813

Dear Commissioners:

Subject: Docket No. 2008-0083
HECO 2009 Test Year Rate Case – Statement of Probable Entitlement

Enclosed for filing is Hawaiian Electric Company Inc.'s ("HECO" or "Company") Statement of Probable Entitlement for its 2009 test year rate case. HECO respectfully requests the Commission to expeditiously render an Interim Decision and Order for this proceeding. The proposed amount of the Interim Rate Increase is \$79,811,000. As explained in the Stipulated Settlement Letter, filed May 15, 2009, the Parties in this proceeding – HECO, the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs ("Consumer Advocate") and the Department of the Navy on behalf of the Department of Defense ("DOD") – agree that the amount of the Interim Rate Increase to which HECO is probably entitled under Section 269-16(d) of the Hawaii Revised Statutes ("HRS") is \$79,820,000 or 6.16% over revenues at current effective rates.¹ The proposed interim increase amount of \$79,811,000 included in Exhibit 1 to this Statement of Probable Entitlement is lower by \$9,000 than the \$79,820,000 amount in the Stipulated Settlement Letter due to finalization of the revenue requirement run. Exhibit 1 provides the results of operations for revenues at current effective rates. As indicated in these exhibits, the agreed-upon interim rate increase is based on a return on common equity of 10.5% and a rate of return on rate base of 8.45%.²

¹ Revenues at current effective rates are revenues from base rates, revenues from the energy cost adjustment clause and revenues from the interim rate increase that went into effect on November 1, 2008 in HECO's 2007 test year rate case, Docket No. 2006-0386.

² The Parties also agree that the final rates set in Docket No. 2006-0386 may impact revenues at current effective rates and at present rates, and that the amount of the stipulated interim rate increase should be adjusted when the final rates are set to take into account any such changes. Upon issuance of a final decision and order for HECO's 2007 test year rate case (Docket No. 2006-0386), the Company will

THE COMMISSION MAY ISSUE AN INTERIM D&O AT THIS TIME

The Commission's Order Amending Stipulated Procedural Order, filed January 21, 2009, specifies May 18, 2009 as the filing date for HECO's Statement of Probable Entitlement. Thus, this Statement of Probable Entitlement is timely filed.

Interim rate relief at this time is essential. Under the average test year concept followed in reaching the settlement, the agreed upon increase in revenues is the amount needed at the beginning of the test year to provide a reasonable opportunity to earn the fair rate of return of the test year. The later in the test year that the increase is received, the lower will be the amount of the increase actually received in the test year. In simple terms, if an annual increase of \$80 million is awarded after one-half of the 2009 test year has passed (which is the earliest that the interim increase could be made effective), then only approximately one-half of the increase (or \$40 million) will actually be received in 2009.

The Commission has ample authority to issue an interim order at this time. For example, in HECO's 1992 test year rate case, Docket No. 6998, the Commission authorized the interim increase after eight months. (Interim Decision and Order No. 11559 was issued March 31, 1992, and HECO's application was filed July 29, 1991.) Moreover, in this case the interim increase would be based on the amount stipulated to by the Parties for purposes of the interim. As discussed below, there are only two remaining contested issues: (1) the appropriate test year expense for informational advertising; and (2) the appropriate return on common equity for the test year, and the Parties agree that these issues should be addressed in an evidentiary hearing.

As indicated above, the interim increase that HECO is requesting is based on a calculation of probable entitlement that reflects the settlement reached by the Parties on all but two issues affecting revenue requirements. HRS § 269-16(d) explicitly provides that the interim is subject to refund with interest. As a result, HECO's customers are protected in the event the interim is higher than the final award. The Company is not equally protected if the interim turns out to be lower than the final award. There is no retroactive increase available to the Company under that circumstance.

report to the Commission whether any adjustment to the interim rate increase for Docket No. 2008-0083 would be necessary.



Cost Of Capital

In their direct testimonies, both the Consumer Advocate and the DOD used the capital structure proposed by HECO in its application (CA-101, Schedule D; DOD-105).

In its settlement proposal to the other Parties, HECO proposed a revised capital structure to reflect its current financing plans (see HECO T-20, Attachment 1, Final Settlement). At the time HECO filed its Application and direct testimonies in this docket, it planned to issue preferred stock. However, given the current financial market conditions, HECO no longer plans to issue preferred stock. Instead, HECO (along with HELCO and MECO) has filed applications requesting approval for the issuance of special purpose revenue bonds (Docket No. 2008-0281) and common equity (Docket No. 2009-0089). The applications provided an updated capital structure for HECO and included a statement of capital structure at year end 2008 and projected for 2009, and statement of sources and application of funds at year end 2008 and forecast for 2009.³

The Parties discussed the timing reasons for HECO's negative short-term borrowing position at year-end 2008 and estimated at year-end 2009, and the impact on the before-tax and after-tax rate of return. For purposes of settlement, the Parties agree that the short-term borrowing amount would be assumed to be zero for the test year, resulting in the following capital structure for purposes of the 2009 test year:

Compromise Capital Structure for Settlement HECO T-20, Attachment 2

	<u>Amounts (\$000)</u>	<u>Weights (%)</u>
Short-term borrowing	0	0.00
Long-term borrowing	576,569	40.76
Hybrid securities	27,775	1.96
Preferred stock	20,696	1.46
Common stock	789,519	55.81

In direct testimony, the Company recommended a rate of return on common equity ("ROE") of 11.25%. This resulted in an overall cost of capital of 8.81%. (See HECO T-19, page 4; HECO T-20, pages 65 to 66; and HECO-2001.)

The Consumer Advocate proposed a ROE in the range of 9.50% to 10.50%, resulting in an overall cost of capital in the range of 7.86% to 8.40%. In its determination of HECO's

³ See Docket No. 2008-0021, Application (filed October 29, 2008), Exhibits 5 and 7; Docket No. 2009-0089, Application (filed April 20, 2009), Exhibits 3 and 4.



revenue requirements, the Consumer Advocate used the low point of 9.50% for ROE, resulting in an overall cost of capital of 7.86% (see CA-101, Schedule D).

The DOD estimated the equity capital cost of similar-risk electric utility companies to fall in a range of 9.25% to 10.25%, with a specific ROE for HECO of 9.50%. Using the 9.50% ROE estimate, along with the DOD's cost rate of 2.50% for short-term debt, results in an overall cost of capital of 7.84% (see DOD-105).

For purposes of the settlement agreement, the Parties agreed that the interim increase should be based on a 10.50% ROE.⁴ The Parties also agreed that the evidence on the fair ROE to be used in determining the revenue requirements for the final decision in this rate case should be presented in the evidentiary hearing scheduled for August 2009, which will allow the Commission to consider and decide this issue.⁵

Using the compromise capital structure shown above, and a 10.50% ROE, results in a composite cost of capital of 8.46% for purposes of the interim rate increase. See HECO T-20, Attachment 2, Final Settlement.

Informational Advertising

⁴ The use of an ROE of 10.5% for purposes of the interim is reasonable, given that the most recent determination is that a 10.7% ROE is fair.

The Commission has used the most recently allowed ROE in calculating the interim rate increase in some of its interim rate orders. For example, in HECO's 1992 test year rate case, HECO sought a 13.5% ROE. The Consumer Advocate and the DOD recommended a 12.0% return. HECO proposed that, for the purposes of interim relief, the Commission should adopt a 13.0% ROE, which was the amount previously approved by the Commission in HECO's last rate case. See Interim Decision and Order No. 11559 ("Interim D&O 11559"), issued March 31, 1992 in Docket No. 6998, at 12. In Interim D&O 11559, the Commission found that:

The final rate of return on common equity adopted in this rate case requires careful analysis and deliberation based on the record. For the purpose of interim relief, we accept as reasonable a 13 per cent rate of return on common equity.

Interim D&O 11559 at 12.

The most recent allowed ROE is 10.7%. In Decision and Order No. 24171 ("D&O 24171"), issued May 1, 2008, in Docket No. 04-0113, the Commission found the fair rate of return for the 2005 test year to be 8.66 percent, including a 10.7% cost of capital for common equity. The capital structure included 55.7 percent for common equity. D&O 24171 at 101. The Commission explicitly examined the cost of common equity stipulated to by the parties. D&O 24171 at 73-78.

⁵ Each party is entitled to present its own position as to what ROE should be used in determining the final revenue requirements and, as a result, the final rate increase recommended by a party may be higher or lower than the interim rate increase stipulated to in this settlement agreement.



HECO proposed 2009 test year Information Advertising expense of \$1,148,000, to include television, radio and print advertising and collateral materials to more aggressively inform customers about energy efficiency and conservation measures. (HECO T-10, page 52.) The Consumer Advocate proposed to reduce test year informational advertising expense by \$774,000 to focus Commission attention on this issue and to seek clarification of the Commission's intentions regarding any continuation of HECO-provided conservation advertising.

During settlement discussions, the Parties were not able to settle this issue. The Consumer Advocate and HECO agree that this issue should be addressed at the evidentiary hearing scheduled for August 2009, which will allow the Commission an opportunity to consider and decide this issue. For the purposes of the interim decision and order, the Parties agreed to reflect the Consumer Advocate's proposed reduction of \$774,000.

HCEI Implementation Studies and HCEI-Related Activities

In connection with the Hawaii Clean Energy Initiative ("HCEI"), the *Energy Agreement among the State of Hawaii, Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and the Hawaiian Electric Companies* ("Energy Agreement") was executed on October 20, 2008. Among other things, the Energy Agreement called for the integration of substantial amounts of clean, renewable energy (particularly wind energy) onto Hawaiian Electric's grid and to base the design and development of a neighbor island wind plant(s), undersea cable systems and on-island infrastructure on the results of a set of HCEI Implementation Studies.

The Energy Agreement includes references to much of the HECO Companies'⁶ on-going renewable energy and energy efficiency efforts (such as the Renewable Energy RFP), as well as new commitments made by the Companies in the Agreement.

The test year revenue requirements include the Company's normal, on-going costs for 2009. The costs of new HCEI items, for which HECO will seek recovery through a surcharge mechanism, are not included in the test year revenue requirements.

With respect to new commitments, in its Rate Case Update, HECO identified a test year estimate of \$2,220,000 of outside services costs for HCEI Implementation Studies but proposed to recover those costs through the Renewable Energy Infrastructure Program/Clean Energy Infrastructure ("REIP/CEI") Surcharge, which was proposed and pending a Commission

⁶ HECO, Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited are collectively referred to as the "HECO Companies" or "Companies".



decision in Docket No. 2007-0416.⁷ The Company also stated that if it does not recover the cost of the HCEI Implementation Studies through the REIP/CEI Surcharge, it should be allowed to recover this cost through base rates approved in this rate case. (See Rate Case Update, HECO T-1, pages 11 to 15.)

In settlement discussions the Consumer Advocate and Company agreed that both the HCEI Implementation Studies (aka "Big Wind Studies") and the Oahu Electric System Analysis (CA-101, Schedule C-4, lines 1 and 6) included in R&D expenses should be recovered through the REIP/CEI Surcharge as proposed in Docket No. 2007-0416.⁸ Thus, the test year is reduced by \$2,220,000 for the Big Wind Studies and \$677,000 for the Oahu Electric System Analysis study.

Certain R&D expenses for 2009 were left in revenue requirements, since R&D is an on-going expense year after year and the Company should be able to recover a reasonable amount in base rates for such expenses.⁹ As a result, the Parties agreed that for purposes of settlement, the R&D costs of \$50,000 for the biofuel agriculture crop research expenses and \$649,000 for the biofuel co-firing project expenses remain in the test year for recovery in the Company's base rates.

For settlement purposes, the Consumer Advocate also proposed that the certain advanced metering infrastructure R&D consulting costs of \$488,000 be amortized over a two year period, which was accepted by the Company for settlement purposes.

In addition, the Parties agreed to normalize the outside services' costs related to the costs of participating in Commission initiated proceedings or obtaining Commission approval (e.g., legal and regulatory support services) for certain initiatives identified in the Energy Agreement.

⁷ Section 29 of the HCEI Agreement called for a Clean Energy Infrastructure ("CEI") Surcharge. The CEI Surcharge is equivalent to the REIP Surcharge that the HECO Companies proposed in Docket No. 2007-0416. On November 28, 2009, the HECO Companies and the Consumer Advocate filed a letter agreeing that the REIP Surcharge proposed in Docket No. 2007-0416 is substantially similar to the CEI Surcharge and that the REIP Surcharge satisfies the HCEI Agreement provision that the implementation procedure of the CEIS recovery mechanism be submitted for Commission approval by November 30, 2008. Because HECO considers the REIP and CEI surcharges to be one and the same, this document refers to this surcharge as the "REIP/CEI Surcharge."

⁸ See discussion in Rate Case Update, HECO T-7, pages 2 to 3.

⁹ In recent years, HECO's R&D efforts have been targeted at enhancing its ability to add renewable energy to its system. For example, the biofuel testing included in HECO's 2009 expenses is the latest phase of HECO's R&D biofuel testing activities, which were discussed in the 2007 test year rate case (as were HECO's R&D activities that related to AMI, and its efforts to support local agriculture related biofuels).



The total amount of the adjustments agreed to by the Parties is a reduction of \$396,000 to the test year for outside services costs for Commission proceedings as summarized below:

- PV Host Program – HECO only – amortized over 2 years¹⁰ \$80,000
- PV Host Program – MECO & HELCO Costs Removed \$40,000
- AMI Legal & Regulatory – amortized over 2 years \$253,000
- FIT Legal & Regulatory – MECO & HELCO Costs Removed \$23,000
- Total Reduction \$396,000

Average Rate Base

As part of the settlement agreement, the Parties have agreed to the use of an average rate base for purposes of the interim and final revenue requirements in this rate case, and HECO has agreed to forego the Campbell Industrial Park (“CIP”) Combustion Turbine Unit 1 (“CT-1”) step increase that it requested in its application.¹¹

Sales Decoupling

In its Rate Case Update, the Company proposed a revenue decoupling mechanism to be effective upon issuance of an interim decision and order in the HECO 2009 rate case. HECO

¹⁰ The amortization period is based on the time period between the 2009 test year rate case and HECO’s next rate case anticipated to be based on a 2011 test year, as proposed by the HECO Companies in the decoupling proceeding, Docket No. 2008-0274.

¹¹ HECO’s revenue requirements in its application were based on including the “full” cost of CIP CT-1 (as estimated at the time of the application). HECO also proposed an interim step increase that did not include the CIP CT-1 costs, and a later step increase for CIP CT-1 proposed a step increase equal to the difference between the revenue requirement reflecting the full annualized cost of the CIP CT-1 (with the net investment of the CIP CT-1 in both the beginning and end of test year balances) and the revenue requirement exclusive of the cost of the CIP CT-1. The Company requested that the CIP CT-1 step increase become effective on the in-service date of the new unit, which is scheduled for July 31, 2009 (HECO-101, page 4). The Company further stated that, if the Commission did not approve the CIP CT-1 step increase, the interim increase (and effectively the final increase) should be based on the “base case” which includes the 2009 CIP CT-1 plant additions on an average basis (net of deferred income taxes) in the end of test year rate base balance but not in the beginning of test year rate base balance (HECO-101, p. 3, footnote 2). The Consumer Advocate and the DOD opposed inclusion of the “full” cost of CIP CT-1 in revenue requirements, and proposed that a fully average test year be used.

Based on the joint decoupling proposal of the Company and the Consumer Advocate in the decoupling docket, which incorporates a RAM rate base adjustment in 2010 that includes actual year-end 2009 plant balances (as well as conservatively estimated plant additions in 2010), HECO (as part of the global settlement agreement) agreed to the use of the fully average test year, without a separate CIP CT-1 Step Increase or annualized ratemaking treatment of CIP CT-1 costs.



also submitted a proposed tariff in the response to CA-IR-277 that would establish a revenue balancing account ("RBA"), which would remove the linkage between electric revenues and sales, effective on the date of the interim decision and order. HECO T-22 Attachment 1, which is attached to the Stipulated Settlement Letter, is a revision to the RBA tariff to conform with agreements reached between the Consumer Advocate and the Hawaiian Electric Companies in the decoupling proceeding, as reflected in the Joint Final Statement of Position of the HECO Companies and the Consumer Advocate filed May 11, 2009 in Docket No. 2008-0274.¹²

The Joint Decoupling Proposal submitted by the HECO Companies and the Consumer Advocate in the decoupling proceeding includes a sales decoupling mechanism, which will be implemented through the RBA, and a Revenue Adjustment Mechanism (or "RAM"). The proposal is to implement sales decoupling through the attached RBA tariff at the time of the interim increase. All parties in the decoupling docket appear to be in agreement that sales decoupling should be implemented. The RBA approved as part of the final decision would be conformed to the sales decoupling mechanism ultimately approved by the Commission in the decoupling docket. There is no proposal to implement the RAM as part of the interim rate changes approved by the Commission, and the RAM would not be implemented until the Commission concludes its review and approval process in the decoupling docket.

For purposes of settlement, the Parties agree that the Commission should allow HECO to establish a revenue balancing account as attached hereto as Exhibit 2, to be effective on the date of the interim decision and order in this proceeding.

NEED FOR TIMELY RATE RELIEF

Timely interim rate relief is necessary for the Company to have a realistic opportunity to earn the return found to be fair in this rate case, and to allow the Company to maintain its financial integrity.¹³

One of the principal measures of a company's financial strength is its credit rating. The

¹² This would implement the provision in paragraph 1 of Section 28 of the Energy Agreement which states: "The revenues of the utility will be fully decoupled from sales/revenues beginning with the interim decision in the 2009 Hawaiian Electric Company Rate Case (most likely in the summer of 2009)."

The Consumer Advocate agreed in the decoupling proceeding (Docket No. 2008-0274) that "the initial sales decoupling mechanism would begin with the establishment of Authorized Base Revenues, which would be equal to the revenue requirements approved by the Commission in its interim decision and orders for HECO's 2009 test year general rate case proceeding and MECO's and HELCO's 2009 or 2010 test year general rate case proceedings." See Joint Final Statement of Position of the HECO Companies and Consumer Advocate, page 11.

¹³ See HECO T-20. Mr. Steven Fetter, elaborates on the importance of maintaining financial strength in HECO T-21.



Company currently has corporate credit ratings of BBB by Standard & Poor's ("S&P")¹⁴ and Baal by Moody's Investors Services ("Moody's").¹⁵

The BBB rating by S&P is of particular concern because that rating puts the Company only one notch above the minimum "investment grade credit rating".¹⁶ Prior to May 2007, S&P's corporate credit rating of HECO had been BBB+. In May 2007, S&P downgraded HECO to BBB. In May 2008, S&P maintained HECO's BBB credit rating, but lowered its business risk profile assessment from "excellent" to "strong". On November 26, 2008, S&P assigned a stable outlook to the BBB rating.¹⁷

The stable outlook reflects our expectation that, for now, HECO appears to have reasonable but not certain prospects for maintaining its existing financial profile, which is weak for the rating. Multiple near-term challenges face the company and include the uncertainties of the cost and feasibility impacts of the CEI, the potential for a significant reduction in electric sales in 2009 (due to economic contraction, energy efficiency initiatives, and customer response to high prices), and a recent softening in leading economic indicators. These challenges suggest that a negative outlook or downward revision to the ratings could be possible over the outlook horizon, as further weakening in the financial profile will not support ratings, and near-term business risk will be elevated until the particulars of the CEI are in place and prove to be supportive. Consistent, timely rate relief will continue to be key, and could offset or mitigate the effects of a declining economic environment, but decoupling or other measures are not expected to be available to the company before late 2009 or early 2010. Given these challenges, higher ratings are not foreseen during the outlook horizon and would need to be accompanied by sustained and improved financial performance.

Business risk considerations cited by S&P¹⁸ include five basic areas of analysis:

¹⁴ S&P Ratings Direct "Hawaiian Electric Co. Inc." dated May 23, 2008 filed as HECO-2008.

¹⁵ Moody's Credit Opinion: Hawaiian Electric Company, Inc. dated December 10, 2007 filed as HECO-2009. In September 2008, Moody's maintained its ratings and stable outlook for HECO. Moody's stated, "The rating could be downgraded should weaker than expected regulatory support emerge at HECO, including the continuation of regulatory lag, which ultimately causes earnings and sustainable cash flow suffer." See SEC Form 10Q for the quarterly period ending March 31, 2009 for Hawaiian Electric Industries, Inc. and HECO, page 74.

¹⁶ S&P's rating of BBB- or higher is considered "investment grade".

¹⁷ See SEC Form 10Q for the quarterly period ending March 31, 2009 for Hawaiian Electric Industries, Inc. and HECO, page 73.

¹⁸ S&P article, "Key Credit Factors: Assessing U.S. Vertically Integrated Utilities' Business Risk Drivers" dated September 14, 2006 filed in Docket No. 2006-0386 (HECO 2007 TY rate case) as HECO-1908.



regulation, markets, operations, competitiveness, and management. Regulation is a critical aspect that underlies a utility's creditworthiness, and decisions by the regulators can profoundly affect financial performance. The Company has numerous regulatory actions pending before the Commission that will impact the credit rating agencies' assessment of HECO's regulatory risk. Regulatory decisions that suggest the utility will not have regulatory support increase the Company's risk profile, and thus place into jeopardy HECO's current credit ratings. A downgrade of those ratings would increase the Company's cost of capital, and thus, ultimately, the rates that customers are required to pay. The Company must continue to obtain regulatory rulings that: (1) give the Company a realistic opportunity to earn a fair return, (2) provide full cost recovery of prudently incurred costs on which the Company's investors make no profit, (3) assure cost recovery of and on necessary capital investments, and (4) provide a fair return on prudent investments.

INTERIM RATE DESIGN

With respect to rate design, the Parties have agreed in the Stipulated Settlement Letter to allocate any interim or final increase in electric revenues to rate classes in the percentages shown in the section on Cost of Service/Rate Increase Allocation/Rate Design in Exhibit 1 of the Stipulated Settlement Letter. According to the Stipulated Settlement Letter, this considers the positions of HECO, the Consumer Advocate and the DOD on cost of service and movement of inter-class revenues towards the respective cost of service positions.

In addition, the Parties agreed to allocate the interim increase in electric revenues assigned to Schedule PP customers such that the Schedule PP customers who are Directly Served from a substation are assigned a revenue increase that is 50% of the overall revenue percentage increase that the interim increase represents.

The Parties also agreed to implement the interim rate increase on a cents per kWh basis.

CONCLUSION

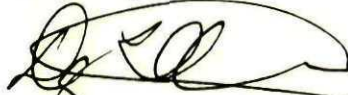
Based on the above, HECO respectfully requests that the Commission approve an interim rate increase in the amount of \$79,811,000 over revenues at current effective rates and approve the rate design for the interim rate increase as described above. In accordance with the Order



The Honorable Chairman and Members of the
Hawaii Public Utilities Commission
May 18, 2009
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Amending Stipulated Procedural Order filed January 21, 2009, Exhibit 3 provides a proposed interim decision and order for this proceeding.

Very truly yours,



Darcy L. Endo-Omoto
Vice President

Enclosures

cc: Division of Consumer Advocacy
Dr. Khojasteh Davoodi
James N. McCormick, Esq.
Sawvel & Associates, Inc.
Utilitech, Inc.
Ralph Smith, Larkin & Associates



Hawaiian Electric Company, Inc.
Probable Entitlement at Current Effective Rates
Results of Operations

	2009 (\$ Thousands)		Revenue Requirements to Produce 8.45% Return on Average Rate Base
	Current Effective Rates	Additional Amount	
Electric Sales Revenue	1,291,619	79,690	1,371,309
Other Operating Revenue	4,140	121	4,261
Gain on Sale of Land	615		615
TOTAL OPERATING REVENUES	1,296,374	79,811	1,376,185
Fuel	438,348		438,348
Purchased Power	346,467		346,467
Production	78,973		78,973
Transmission	13,859		13,859
Distribution	29,844		29,844
Customer Accounts	12,500		12,500
Allowance for Uncoll. Accounts	1,302	0	1,302
Customer Service	5,784		5,784
Administration & General	88,948		88,948
Operation and Maintenance	1,016,025	0	1,016,025
Depreciation & Amortization	81,868		81,868
Amortization of State ITC	(1,453)		(1,453)
Taxes Other Than Income	122,103	7,088	129,191
Interest on Customer Deposits	479		479
Income Taxes	15,909	28,296	44,205
TOTAL OPERATING EXPENSES	1,234,931	35,384	1,270,315
OPERATING INCOME	61,443	44,427	105,870
AVERAGE RATE BASE	1,253,601	(718)	1,252,883
RATE OF RETURN ON AVERAGE RATE BASE	4.90%		8.45%

Hawaiian Electric Company, Inc.

Probable Entitlement at Current Effective Rates
COMPOSITE EMBEDDED COST OF CAPITAL
Estimated 2009 Average

	A	B	C	D
	Capitalization			
	Amount in Thousands	Percent of Total	Earnings Reqmts	Weighted Earnings Reqmts (B) x (C)
Short-Term Debt	0	0	0.75%	0.000%
Long-Term Debt	576,569	40.76	5.81%	2.368%
Hybrid Securities	27,775	1.96	7.41%	0.146%
Preferred Stock	20,696	1.46	5.48%	0.080%
Common Equity	789,374	55.81	10.50%	5.860%
Total	1,414,414	100.00		
Estimated Composite Cost of Capital				8.454%
			or	<u>8.45%</u>

Probable Entitlement at Current Effective Rates
2009 AVERAGE RATE BASE
(\$ Thousands)

	Beginning Balance	End of Year Balance	Average Balance
Investments in Assets Serving Customers			
Net Cost of Plant in Service	1,365,578	1,575,485	1,470,532
Property Held for Future Use	2,331	2,331	2,331
Fuel Inventory	43,274	46,736	45,005
Materials & Supplies Inventories	16,391	16,015	16,203
Unamort. Net SFAS 109 Reg. Asset	57,753	62,718	60,236
Unamort Sys Dev Costs	4,684	7,936	6,310
RO Pipeline Reg Asset	0	6,366	3,183
ARO Reg Asset	10	12	11
Total Investments in Assets	1,490,021	1,717,599	1,603,811
Funds From Non-Investors			
Unamortized CIAC	178,757	183,375	181,066
Customer Advances	947	807	877
Customer Deposits	8,201	8,581	8,391
Accumulated Def. Income Taxes	132,510	156,551	144,531
Unamort State ITC (Gross)	30,102	28,650	29,376
Unamortized Gain on Sale	1,345	746	1,046
Pension Reg Liability	3,051	-3,454	-202
OPEB Reg Liability	777	433	605
Total Deductions	355,690	375,689	365,690
Difference			1,238,121
Working Cash at Current Effective Rates			15,480
Rate Base at Current Effective Rates			1,253,601
Change in Rate Base - Working Cash			(718)
Rate Base at Proposed Rates			1,252,883

Hawaiian Electric Company, Inc.

Probable Entitlement at Current Effective Rates
WORKING CASH ITEMS
2009
(\$ Thousands)

	A	B	C	D
	COLLECTION	PAYMENT	NET	
	LAG	LAG	COLLECTION	ANNUAL
	(DAYS)	(DAYS)	LAG	AMOUNT
			(DAYS)	
			(A - B)	
ITEMS REQUIRING WORKING CASH				
Fuel Oil Purchases	37	17	20	431,206
O&M Labor	37	11	26	99,620
O&M Nonlabor	37	33	4	122,350
ITEMS THAT PROVIDE WORKING CASH				
Revenue Taxes	37	66	(29)	114,909
Income Taxes-Curr Eff Rates	37	39	(2)	(8,132)
Income Taxes-Proposed Rates	37	39	(2)	20,164
Purchased Power	37	37	0	346,467
	E	F	G	H
	AVERAGE	WORKING	AVERAGE	WORKING
	DAILY	CASH	DAILY	CASH
	AMOUNT	(CURR EFF	AMOUNT	(PROPOSED
	(D/365)	RATES)	(PROPOSED)	RATES)
		(C X E)		(C X G)
ITEMS REQUIRING WORKING CASH				
Fuel Oil Purchases	1,181	23,628	1,181	23,628
O&M Labor	273	7,096	273	7,096
O&M Nonlabor	335	1,341	335	1,341
ITEMS THAT PROVIDE WORKING CASH				
Purchased Power	949	0	949	0
Revenue Taxes	315	(9,130)	334	(9,693)
Income Taxes-Curr Eff Rates	(22)	45		
Income Taxes-Proposed Rates	55	-	55	(110)
Settlement Adjustment		(7,500)		(7,500)
Total		15,480		14,762
Change in Working Cash				(718)

Hawaiian Electric Company, Inc.

Probable Entitlement at Current Effective Rates

COMPUTATION OF INCOME TAX EXPENSE

2009

(\$ Thousands)

	Current Effective Rates	Adjustment	At Proposed Rates
Operating Revenues	1,296,374	79,811	1,376,185
Operating Expenses:			
Fuel Oil and Purchased Power	784,815		784,815
Other Operation & Maintenance Expense	231,210	0	231,210
Depreciation	81,868		81,868
Amortization of State ITC	(1,453)		(1,453)
Taxes Other than Income	122,103	7,088	129,191
Interest on Customer Deposits	479		479
Total Operating Expenses	1,219,022	7,088	1,226,110
Operating Income Before Income Taxes	77,352	72,723	150,075
Tax Adjustments:			
Interest Expense	(31,497)		(31,497)
Meals and Entertainment	78		78
	(31,419)	0	(31,419)
Taxable Income at Ordinary Rates	45,933	72,723	118,656
Income Tax Exp at Ordinary Rates	17,872	28,296	46,168
Tax Benefit of Domestic Production Activities Deduction	1,725		1,725
Tax Effect of Deductible Preferred Stock Dividends	23		23
R&D Credit	215		215
TOTAL INCOME TAX EXPENSE	15,909	28,296	44,205

Hawaiian Electric Company, Inc.

Probable Entitlement at Current Effective Rates

COMPUTATION OF TAXES OTHER THAN INCOME TAX

2009

(\$ Thousands)

	Rate	Current Effective Rates	Adjustment	At Proposed Rates
Electric Sales Revenue		1,291,619	79,690	1,371,309
Other Operating Revenue		4,140	121	4,261
Operating Revenues		1,295,759	79,811	1,375,570
Public Service Tax	5.885%	76,179	4,697	80,876
PUC Fees	0.500%	6,472	399	6,871
Franchise Tax	2.500%	32,258	1,992	34,250
Payroll Tax		7,194		7,194
TOTAL TAXES OTHER THAN INCOME TAX		122,103	7,088	129,191

Hawaiian Electric Company, Inc.

Probable Entitlement at Current Effective Rates
CALCULATIONS OF REVENUE REQUIREMENTS
2009
(\$ Thousands)

OPERATING INCOME AT CURRENT EFFECTIVE RATES:

Operating Revenues	1,296,374
Fuel and Purchased Power Expenses	784,815
Other O&M Expenses	231,210
Depreciation & Amortization Expense	81,868
Amortization of State ITC	(1,453)
Taxes Other than Income	122,103
Interest on Customer Deposits	479
Income Taxes	15,909
Total Operating Expenses	1,234,931

OPERATING INCOME AT CURRENT EFFECTIVE RATES	61,443
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CALCULATIONS OF REVENUE REQUIREMENTS:

OPERATING INCOME

Rate Base at Proposed Rates	1,252,883
Proposed Rate of Return on Rate Base	x 8.45%
Operating Income	105,869

Less: Operating Income at Current Effective Rate	61,443
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INCREASE IN OPERATING INCOME	44,426
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OPERATING REVENUES:

Increase in Operating Income	44,426
Operating Income Divisor (divided by)	0.55665

INCREASE IN OPERATING REVENUES	79,811
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Increase in Electric Sales Revenue	79,690
Other Operating Revenue Rate	x 0.152%
Increase in Other Operating Revenues	121
	79,811

Hawaiian Electric Company, Inc.

Probable Entitlement at Current Effective Rates
CALCULATIONS OF REVENUE REQUIREMENTS
2009
(\$ Thousands)

BAD DEBT:		
Increase in Electric Revenues		79,690
Bad Debt Rate	x	0.0000
INCREASE IN BAD DEBT EXPENSE		0
REVENUE TAX:		
Increase in Operating Revenues		79,811
Less: Increase in Bad Debt Expense		0
		79,811
PSC Tax & PUC Fees Rate	x	6.385%
		5,096
Increase in Electric Revenues		79,690
Less: Increase in Bad Debt Expense		0
		79,690
Franchise Tax Rate	x	2.500%
		1,992
INCREASE IN REVENUE TAX		7,088
INCOME TAX:		
Increase in Operating Revenues		79,811
Effective Income Tax Rate after considering revenue tax & bad debt	x	35.454%
INCREASE IN INCOME TAX		28,296
INCREASE IN OPERATING INCOME (check)		44,427

Hawaiian Electric Company, Inc.

Probable Entitlement at Current Effective Rates
CALCULATIONS OF REVENUE REQUIREMENTS

2009
(\$ Thousands)

CHANGE IN RATE BASE:

	A	B	C	D
	EXPENSE	AVERAGE	NET	WORKING
	AMOUNT	DAILY	COLLECTION	CASH
		AMOUNT	LAG (DAYS)	REQMT
		(A/365)		(B) x (C)
Increase in Revenue Tax	7,088	19	(29)	(563)
Income Tax at curr eff rate	(8,132)	(22)	(2)	(45)
Income Tax at proposed rate	20,164	55	(2)	(110)
CHANGE IN RATE BASE - WORKING CASH				(718)
Rate Base at Current Effective Rates				1,253,601
PROPOSED RATE BASE				1,252,883
Operating Income at Current Effective Rates				61,443
Increase in Operating Income				44,426
OPERATING INCOME AT PROPOSED RATES				105,869
PROPOSED RATE OF RETURN ON RATE BASE (check)				8.45%

Hawaiian Electric Company, Inc.

Probable Entitlement at Current Effective Rates
SUPPORT WORKSHEET
2009

OPERATING REVENUES:

Electric Sales Revenues	1,291,619
Other Operating Revenues	4,140
Gain on Sale of Land	615

TOTAL OPERATING REVENUES	<u>1,296,374</u>
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FUEL OIL AND PURCHASE POWER EXPENSES:

Fuel Oil Expense	431,206
Fuel Related Non-labor Exp	6,549
Fuel Handling Labor Expense	593

Fuel Oil Expense	<u>438,348</u>
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Purchased Power Expense	<u>346,467</u>
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TOTAL FUEL OIL AND PURCHASE POWER EXPENSES	<u>784,815</u>
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OTHER OPERATION & MAINTENANCE EXPENSES:

Production	78,973
Transmission	13,859
Distribution	29,844
Customer Account	12,500
Allowance for Uncollectible Accounts	1,302
Customer Service	5,784
Administration & General	88,948

TOTAL OTHER OPERATION & MAINTENANCE EXPENSES	<u>231,210</u>
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Hawaiian Electric Company, Inc.

Probable Entitlement at Current Effective Rates
SUPPORT WORKSHEET
2009

TOTAL FUEL OIL & PP AND OTH O&M EXPENSES (LABOR/NONLABOR)		
Fuel Oil Expense		431,206
Purchase Power Expense		346,467
Total Labor Expense		
Labor Expense		99,620
Total Labor Expense		99,620
Total Nonlabor Expense		
Nonlabor Expense		132,183
Fuel Related Expense		6,549
Payroll Taxes		7,194
Bad Debt Expense		(1,302)
Pension Expense & Amortization		(22,274)
		122,350
TOTAL FUEL OIL & PP, OTH O&M AND PR TAX EXPENSES		999,643
REVENUE TAX		
Public Service Tax		
Electric Sales Revenues		1,291,619
Other Operating Revenues		4,140
Less: Bad Debt Expense		(1,302)
Operating Revenues subject to PSC Tax		1,294,457
Public Service Tax Rate	x	5.885%
Total PSC Tax		76,179
PUC Fees		
Electric Sales Revenues		1,291,619
Other Operating Revenues		4,140
Less: Bad Debt Expense		(1,302)
Operating Revenues subject to PSC Tax		1,294,457
PUC Tax Rate	x	0.500%
Total PUC Tax		6,472

Hawaiian Electric Company, Inc.

Probable Entitlement at Current Effective Rates
SUPPORT WORKSHEET
2009

Franchise Tax		
Electric Sales Revenues		1,291,619
Less: Bad Debt Expense		(1,302)
		<u>1,290,317</u>
Franchise Tax Rate	x	2.500%
Total Franchise Tax		32,258
TOTAL REVENUE TAX		<u>114,909</u>
INTEREST EXPENSE:		
Weighted Cost of Debt		
Short-Term Debt		0.000%
Long-Term Debt		2.368%
Hybrid Securities		<u>0.146%</u>
Total		2.514%
Rate Base at Proposed Rates	x	<u>1,252,883</u>
TOTAL INTEREST EXPENSE		<u>31,497</u>
INCOME TAX EXPENSE SUMMARY		
Current		(8,132)
Deferred		24,041
State ITC		0
TOTAL INCOME TAX EXPENSE		<u>15,909</u>
CALCULATIONS OF REVENUE TAX RATE:		
Franchise Tax Rate adjusted for Change in Oth Oper		
Revenues and Bad Debt		0.02496
PSC Tax Rate adjusted for Bad Debt		0.05885
PUC Tax Rate adjusted for Bad Debt		0.00500
REVENUE TAX RATE		<u>0.08881</u>
CALCULATIONS OF COMPOSITE INCOME TAX RATE:		
State Tax Rate		0.06015
Federal Tax Rate		0.35000
State Tax Rate		0.06015
Federal Tax Rate	x	0.35000
Federal Tax Effect on State Tax		<u>(0.02105)</u>
COMPOSITE INCOME TAX RATE		<u>0.38910</u>

Hawaiian Electric Company, Inc.

Probable Entitlement at Current Effective Rates
SUPPORT WORKSHEET
2009

CALCULATIONS OF COMPOSITE CAPITAL GAINS TAX RATE:		
State Capital Gains Tax Rate		0.03759
Federal Tax Rate		0.35000
State Capital Gains Tax Rate		0.03759
Federal Tax Rate	x	0.35000
Federal Tax Effect on State Capital Gains Tax Rate		(0.01316)
COMPOSITE CAPITAL GAINS TAX RATE		<u>0.37444</u>
CALCULATIONS OF EFFECTIVE INCOME TAX RATE:		
PSC Tax & PUC Fees Rates adjusted for Bad Debt		0.06385
Franchise Tax adjusted for Change in Oth Oper Rev and Bad Debt		0.02496
Bad Debt Rate adjusted for Change in Oth Oper Rev		-
Revenue Tax and Bad Debt rate		<u>0.08881</u>
Rev Tax & Bad Debt Reciprocal	(1 - 0.08881)	0.91119
Composite Income Tax Rate	x	<u>0.38910</u>
EFFECTIVE INCOME TAX RATE AFTER CONSIDERING REVENUE TAX & BAD DEBT		<u>0.35454</u>
CALCULATIONS OF OPERATING INCOME DIVISOR:		
PSC Tax & PUC Fees Rates		0.06385
Franchise Tax adjusted for Change in Oth Oper Rev		0.02496
Bad Debt Rate adjusted for Change in Oth Oper Rev		-
Effective Income Tax Rate after considering revenue tax & bad debt		<u>0.35454</u>
		<u>0.44335</u>
OPERATING INCOME DIVISOR	(1 - 0.44335)	<u>0.55665</u>

SHEET NO.
Effective

REVENUE BALANCING ACCOUNT ("RBA") PROVISION

ILLUSTRATIVE EXAMPLE FOR HAWAIIAN ELECTRIC COMPANY, INC.

Supplement To:

Schedule R - Residential Service
Schedule E - Electric Service For Employees
Schedule G - General Service Non-Demand
Schedule J - General Service Demand
Schedule H - Commercial Cooking, Heating, Air
Conditioning, and Refrigeration Service
Schedule PS - Large Power Secondary Voltage Service
Schedule PP - Large Power Primary Voltage Service
Schedule PT - Large Power Transmission Voltage Service
Schedule F - Public Street Lighting, Highway Lighting
and Park and Playground Floodlighting
Schedule U - Time of Use Service
Schedule TOU-R - Residential Time-of-Use Service
Schedule TOU-C - Commercial Time-of-Use Service
Schedule SS - Standby Service

All terms and provisions of Schedules R, E, G, J, H, PS, PP, PT, F, U, TOU-R, TOU-C, and SS are applicable except that the total base rate charges for each billing period shall be adjusted by the Revenue Balancing Account Rate Adjustments shown below:

A: PURPOSE:

The purpose of the Revenue Balancing Account ("RBA") is to record: 1) the difference between the Hawaiian Electric Company's (HECO's) target revenue and recorded adjusted revenue, and 2) monthly interest applied to the simple average of the beginning and ending month balances in the RBA. In addition, the recovery provision of this tariff provides for collection or return of the calendar year-end balance in the RBA over the subsequent June 1st through May 31st period. The RBA is established in accordance with the Commission order in Docket No. 2008-0083 and is modified to conform with the Commission order in Docket No. 2008-0274.

B: TARGET REVENUE:

For the purpose of the RBA, the **target revenue** is the most recent Authorized Base Revenue approved by the Public Utilities Commission (PUC), adjusted to remove amounts for applicable revenue taxes. The target revenue will exclude revenue for fuel and purchased power expenses that are recovered either in base rates or in a purchased power adjustment clause and all revenue being separately tracked or recovered through any other surcharge or rate tracking mechanism. The target revenue is allocated to separate RBA sub-accounts, one for residential customers and one for all commercial and industrial

HAWAIIAN ELECTRIC COMPANY, INC.

SHEET NO. _____
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REVENUE BALANCING ACCOUNT ("RBA") PROVISION

customers collectively, based on the approved rate design that implements an approved revenue requirement from a rate case.

Monthly Allocation Factors for the Target Revenue are as follows:

	Residential	Commercial & Industrial
January	8.40%	7.83%
February	7.27%	7.31%
March	8.00%	8.05%
April	7.88%	7.86%
May	8.17%	8.41%
June	8.37%	8.36%
July	8.68%	8.70%
August	9.08%	9.03%
September	8.72%	8.83%
October	8.75%	8.95%
November	8.26%	8.36%
December	<u>8.42%</u>	<u>8.31%</u>
Total	100.00%	100.00%

These factors are based on the mWh sales forecast approved by the Commission in HECO's test year 2009 rate case and shall be updated in any subsequent test year rate case.

C: BALANCING ACCOUNT ENTRIES:

Entries to the RBA residential sub-account and commercial and industrial sub-account will be recorded monthly. A debit entry to the RBA will be made equal to the target revenue as defined in Section B. above, times the appropriate monthly allocation factor in the table above. A credit entry to the RBA will be made equal to the recorded adjusted revenue. The **recorded adjusted revenue** is defined to include the electric sales revenue from authorized base rates, plus revenue from any authorized interim rate increase, plus revenue from any RBA rate adjustment, but excluding revenue for fuel and purchased power expenses, IRP/DSM, any Commission Ordered one-time rate refunds or credits or other surcharges, and adjusted to remove amounts for applicable revenue taxes.

Interest will be recorded monthly to the RBA sub-accounts by multiplying the simple average of the beginning and ending month balance in the RBA sub-account times the Interest Rate divided by 12. The Interest Rate shall be 6 percent.

D: RECOVERY OF BALANCING ACCOUNT AMOUNTS:

At March 31st of each calendar year, the Company will file with the Commission a statement of the previous calendar year-end balance in each RBA sub-account and supporting calculations. The amortization of the previous calendar year-end balance in the RBA sub-accounts will be recovered through separate per-kWh **RBA rate adjustments**, one for residential customers and one for commercial and industrial customers,

HAWAIIAN ELECTRIC COMPANY, INC.

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Effective _____

REVENUE BALANCING ACCOUNT ("RBA") PROVISION

respectively, over the 12 months from June 1 of the current calendar year to May 31 of the succeeding calendar year. The residential RBA adjustment will recover the previous calendar year-end balance in the residential RBA sub-account and the commercial/industrial RBA adjustment will recover the previous calendar year-end balance in the commercial/industrial RBA sub-account.

E: REVENUE BALANCING ACCOUNT RATE ADJUSTMENTS:

The RBA rate adjustments are comprised of the calculated values from Section D above, adjusted to include amounts for applicable revenue taxes. The RBA rate adjustments are calculated based on the Company's forecast of mWh sales over the RBA rate adjustment recovery period.

Effective June 1, 20__ to May 31, 20__

Residential RBA Adjustment

Rate Schedules R, E, TOU-R.....0.0000 ¢/kWh

Commercial/Industrial RBA Adjustment

Rate Schedules G, J, H, PS, PP, PT, F, U, TOU-C, SS.....0.0000 ¢/kWh

DOCKET NO. 2008-0083
HECO 2009 TEST YEAR RATE CASE

PROPOSED INTERIM DECISION AND ORDER

By this Interim Decision and Order, the commission approves, on an interim basis, the request of HAWAIIAN ELECTRIC COMPANY, INC. ("HECO") to increase its rates to such levels as will produce, in the aggregate, \$79,811,000 in additional revenues, or 6.16 per cent over revenues at current effective rates for a normalized 2009 test year ("2009 Test Year").

The commission also approves, on an interim basis, the adoption of the revenue balancing account, to be described herein.

I.

Introduction

A.

Application

On July 3, 2008, HECO filed an application in Docket No. 2008-0083 for approval of rate increases and revised rate schedules and rules ("Application") in which HECO requested a general rate increase of approximately \$97,011,000, or 5.2%, over revenues at current effective rates. HECO's filing included its Direct Testimonies, Exhibits and Workpapers.¹ HECO filed its Application pursuant to Title 6, Chapter 61, Subchapters 2, 6, and 8, HAR, the Rules of Practice and Procedure before the Public Utilities Commission. HECO seeks the commission's approval of the proposed rate increase and revised rate schedules pursuant to Hawaii Revised Statutes ("HRS") § 269-16.

HECO served copies of the Application on the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate"), an ex officio party to this docket, pursuant to HRS § 269-51 and HAR § 6-61-62.

By Order Granting Intervention to Department of Defense, filed on August 20, 2008, the Commission granted the Motion to Intervene and Become a Party of the DEPARTMENT OF THE NAVY on behalf of the DEPARTMENT OF DEFENSE ("DOD") filed July 29, 2008.

On September 18, 2008, the commission held a public hearing at the Public Utilities Commission Hearing Room in Honolulu to gather public comments on this docket.

On October 31, 2008, the commission issued an Order² denying: (1) Motion to Intervene and Become a Party filed by Wal-Mart Stores, Inc. and Sam's West, Inc. (collectively, "Wal-Mart") on August 20, 2008;³ (2) Motion to Intervene and Become a Party filed by Wal-Mart on

¹ On May 1, 2008, HECO filed a Notice of Intent, pursuant to Hawaii Administrative Rules ("HAR") § 6-61-85, stating that it planned to request rate relief based on a 2009 calendar year test period and file an application on or after July 1, 2008.

² See Order Denying Motions to Intervene and Motion for Leave to File a Reply; Dismissing as Moot Motions to Appear and Motion for Enlargement of Time; Ruling on the Completeness of HECO's Application; and Directing the Parties to File a Stipulated Procedural Order Within Thirty Days.

September 2, 2008; (3) Motion to Intervene and Become a Party filed by the Hawaii Commercial Energy Customer Group ("Commercial Group") on September 29, 2008;⁴ and (4) Commercial Group's Motion for Leave to File Reply to HECO's Memorandum in Opposition to Commercial Group's Intervention Motion, filed on October 21, 2008. In addition, the commission found HECO's application to be complete and properly filed under HRS § 269-16(d) and HAR § 6-61-87, ordered that the filing date of HECO's application is July 3, 2008, and directed HECO, the Consumer Advocate, and the DOD (collectively, the "Parties") to submit to the Commission a stipulated procedural order by December 2, 2008.

On January 12, 2009, the Commission issued, sua sponte, an Order Extending Date of Completeness of Application, extending the filing date of HECO's Application from July 3, 2008 to December 26, 2008. By letter filed January 13, 2009, HECO requested a one-week extension for the Parties to file a stipulated procedural order.⁵

Pursuant to the Stipulated Procedural Order, HECO responded to information requests ("IRs") submitted by the Consumer Advocate and the DOD during the period from July through October 2009. (Certain additional IR responses were provided to the Consumer Advocate and DOD after October 2009.) In November and December 2008, HECO also submitted updates to its 2009 test year estimates ("Rate Case Updates") reflected in the Application, Direct Testimonies, Exhibits and Workpapers filed on July 3, 2008, including incorporation of certain recorded 2008 results as well as other corrections and revisions. From January through March 2009, HECO responded to IRs that were submitted by the Consumer Advocate and DOD regarding HECO's updated estimates.

On January 15, 2009, the Parties submitted a Stipulated Procedural Order containing a Schedule of Proceedings,⁶ which the commission approved in its Order Approving, with Modifications, Stipulated Procedural Order Filed on January 15, 2009, issued the same day.

³ On August 20, 2008, Wal-Mart filed a Motion to Intervene in this docket. On August 27, 2008, HECO filed a Memorandum in Opposition to Wal-Mart's motion. On September 2, 2008, Wal-Mart filed a Notice of Withdrawal without prejudice of Motion to Intervene. On September 2, 2008, Wal-Mart filed a second Motion to Intervene in this docket.

⁴ On September 29, 2008, the Commercial Group filed a Motion to Intervene in this docket. On October 1, 2008, Wal-Mart filed a Notice of Withdrawal and of its participation through the Commercial Group. On October 7, 2008, HECO filed a Memorandum in Opposition to the Commercial Group's motion. On October 21, 2008, the Commercial Group filed a Motion for Leave to File Reply to HECO's Memorandum in Opposition to the Commercial Group's Motion to Intervene. On November 12, 2008, Wal-Mart filed a Motion for Reconsideration of the commission's October 31, 2008 order. By Order Denying Motion for Reconsideration and Dismissing as Moot Motion for Leave to File Reply, issued December 31, 2008, the commission denied Wal-Mart's Motion for Reconsideration, and dismissed as moot the Motion for Leave to File a Reply to Wal-Mart's Reconsideration, filed by HECO on November 19, 2008.

⁵ On December 1, 2008, HECO requested, on behalf of the Parties, an extension, until December 23, 2008, to file a stipulated procedural order. The Commission granted the extension to the Parties by letter dated December 18, 2008. On December 23, 2008, the Parties requested additional time to submit a stipulated procedural order, requesting an extension until January 13, 2009. On December 31, 2008, the Commission approved HECO's request, filed on December 23, 2008, for an extension of time for the Parties to file a stipulated procedural order in this docket.

⁶ The Schedule of Proceedings reflected, among other things: (1) Submission of Joint Settlement Letter on May 15, 2009; (2) Consumer Advocate and DOD Responses to HECO IRs regarding revenue

By letter filed January 20, 2009, HECO requested that the commission amend the Schedule of Proceedings in the Stipulated Procedural Order so as to set the specific date by which an interim decision and order should be rendered in this docket as July 2, 2009. On January 21, 2009, the commission granted HECO's request with the issuance of its Order Amending Stipulated Procedural Order. Thus, the Schedule of Proceedings includes the issuance of an Interim Decision and Order by July 2, 2009.

By letter dated April 6, 2009, the commission advised the Parties that their Statement of Probable Entitlement and Proposed Interim Decision and Order should not include any mechanisms or expenses related to programs or applications that have not been approved by the commission (e.g., Decoupling, Renewable Energy Infrastructure Program, Solar Saver Pilot Program amendments, Advanced Metering Infrastructure Program).

On April 17, 2009, the Consumer Advocate and DOD filed their Testimonies, Exhibits and Workpapers with respect to revenue requirements, which reflected rate increases of \$62,700,000, and \$42,100,000, respectively. On April 28, 2009, the Consumer Advocate and DOD filed their Testimonies, Exhibits and Workpapers with respect to cost of service and rate design.

The Consumer Advocate and DOD conducted extensive discovery in this docket, prior to the submission of their testimonies. HECO responded to 504 IRs submitted by the Consumer Advocate and 133 IRs submitted by the DOD, some of which responses were further supplemented during the settlement negotiation process. In addition, HECO's witnesses and supporting staff met with or participated in telephone conferences with the expert consultants retained by the Consumer Advocate and the DOD on numerous occasions to review the exhibits, workpapers and other data supporting the test year revenue requirements.

On April 24 and 27, 2009, HECO submitted IRs relating to the revenue requirements testimonies of the Consumer Advocate and DOD. By letter dated May 14, 2009, HECO withdrew a number of the IRs submitted to the Consumer Advocate. On May 15, 2009, DOD submitted responses to HECO's IRs.

B.

Stipulated Settlement Letter

The commission's January 15 and 21, 2009 Orders (1) Approving, With Modifications, Stipulated Procedural Order Filed On January 15, 2009; and (2) Amending Stipulated Procedural Order govern the proceedings in this docket. Pursuant thereto, the Parties engaged in settlement discussions, in an attempt to resolve the issues established for this docket.

By Stipulated Settlement Letter filed on May 15, 2009, and Exhibit 1 thereto, the Parties documented their agreements on all but two issues: (1) the appropriate test year expense for informational advertising;⁷ and (2) the appropriate return on common equity for the test year.⁸ The Parties agreed that these issues should be addressed in an evidentiary hearing.

requirements and cost of service/rate design on May 15, 2009; and (3) Statement of Probable Entitlement and Proposed Interim Decision and Order on May 18, 2009.

⁷ HECO proposed 2009 test year Information Advertising expense of \$1,148,000, to include television, radio and print advertising and collateral materials to more aggressively inform customers about energy efficiency and conservation measures. The Consumer Advocate proposed to reduce test year

The Parties agreed that the amount of the Interim Rate Increase to which HECO is probably entitled under § 269-16(d) of the Hawaii Revised Statutes is \$79,820,000 over revenues at current effective rates.⁹ Such agreement reflects the Consumer Advocate's position on the test year expense for informational advertising, and a compromise rate of return on common equity of 10.5%. HECO's Statement of Probable Entitlement that was filed on May 18, 2009 stated that the proposed interim increase amount of \$79,811,000 included in the Statement of Probable Entitlement was lower than the \$79,820,000 amount in the Stipulated Settlement Letter filed by the Parties on May 15, 2009 due to finalization of the revenue requirement run.

The Parties also agreed that the final rates set in Docket No. 2006-0386 may impact revenues at current effective rates, and that the amount of the stipulated interim rate increase will be adjusted to take into account any such changes.

C.

Statement of Probable Entitlement

Pursuant to the Stipulated Settlement Letter, HECO filed a Statement of Probable Entitlement that reflects the stipulated agreements on May 18, 2009. Exhibit 1, attached to the Statement of Probable Entitlement, sets forth the results of the agreement between HECO, the Consumer Advocate and the DOD on the 2009 Test Year revenue requirements ("HECO's Exhibit 1").

As indicated above, the Parties have agreed that the amount of the Interim Rate Increase to which HECO is probably entitled under HRS § 269-16(d) is \$79,811,000 over revenues at current effective rates¹⁰.

II.

Discussion

A.

informational advertising expense by \$774,000 to focus Commission attention on this issue and to seek clarification of the Commission's intentions regarding any continuation of HECO-provided conservation advertising. During settlement discussions, the Parties were not able to settle this issue. For the purposes of the interim decision and order, the Consumer Advocate and HECO agreed to reflect the Consumer Advocate's proposed reduction of \$774,000.

⁸ In direct testimony, the Company recommended a rate of return on common equity ("ROE") of 11.25%. The Consumer Advocate proposed a ROE in the range of 9.50% to 10.50%. The DOD estimated the equity capital cost of similar-risk electric utility companies to fall in a range of 9.25% to 10.25%, with a specific return on common equity for HECO of 9.50%. For purposes of the settlement agreement, the Parties agreed that the interim increase should be based on a 10.50% ROE.

⁹ Revenues at current effective rates are revenues from base rates, revenues from the energy cost adjustment clause and revenues from the interim rate increase that went into effect on November 1, 2008 in HECO's 2007 test year rate case, Docket No. 2006-0386.

¹⁰ HECO's Exhibit 1. Revenues at current effective rates are revenues from base rates, revenues from the energy cost adjustment clause and revenues from the interim rate increase that went into effect on November 1, 2008 in HECO's 2007 test year rate case, Docket No. 2007-0386.

Results of Operation

For interim relief purposes, the commission will apply the average test year methodology. Attached to this Interim Decision and Order is Exhibit A, which provides the estimates of operating revenues and expenses and the average depreciated rate base for the 2009 Test Year for purposes of this Interim Decision and Order.¹¹ This exhibit reflects the settlement between HECO, the Consumer Advocate and the DOD with respect to the issues impacting revenue requirements. In particular, the Parties have agreed to an increase of \$79,820,000 over revenues current effective rates of \$1,296,374,000 or 6.16 per cent over current effective rates for a normalized 2009 test year. HECO's Statement of Probable Entitlement that was filed on May 18, 2009 stated that the proposed interim increase amount of \$79,811,000 included in the Statement of Probable Entitlement was lower than the \$79,820,000 amount in the Stipulated Settlement Letter filed by the Parties on May 15, 2009 due to finalization of the revenue requirement run.

The final rate of return on common equity to be adopted in this rate case will require further analysis. For purposes of this Interim Decision and Order, the commission accepts a 10.5 per cent rate of return on common equity, for an overall rate of return of 8.45 per cent on the average depreciated rate base of \$1,252,883,000, all of which were agreed upon by the Parties. Accordingly, the commission concludes that interim rate relief in the amount of \$79,811,000 in additional revenues, or a 6.16 per cent increase over revenues at current effective rates, is appropriate. Based on the record, it appears that HECO will probably be entitled to the level of relief that the commission grants in this Interim Decision and Order. The interim relief granted meets HECO's need for immediate rate relief and protects the interests of the ratepayers.

In arriving at the interim relief for additional revenues of \$79,811,000, the commission considered the Parties' agreements and disagreements concerning the components relevant in ratemaking, namely, the test year estimates of operating revenues (at current effective rates), operating expenses, average depreciated rate base, and rate of return on average rate base. Where the Parties agreed, the commission accepted such agreement for purposes of this Interim Decision and Order.

B.

HECO's Requests

HECO proposes that the commission grant rate relief in two (2) steps:

1. Interim increase, equal to the increase in rates to which the commission believes HECO is "probably entitled" based on the evidentiary record before it.
2. General increase, a general rate increase when the commission issues its final decision and order to provide for the amount of HECO's total requested revenue increase not included in the interim rate increase.

HECO generally requests that its proposed rate design changes be implemented when the final increase becomes effective, at which time it will concurrently terminate the interim rate increase surcharge.

¹¹ Any differences between the commission's numbers and HECO's Exhibit 1 are due to rounding.

With respect to rate design, the Parties have agreed in the Stipulated Settlement Letter to allocate any interim or final increase in electric revenues to rate classes in the percentages shown in the section on Cost of Service/Rate Increase Allocation/Rate Design in Exhibit 1 of the Stipulated Settlement Letter. According to the Stipulated Settlement Letter, this considers the positions of HECO, the Consumer Advocate and the DOD on cost of service and movement of inter-class revenues towards the respective cost of service positions.

In addition, the Parties agreed to allocate the interim increase in electric revenues assigned to Schedule PP customers such that the Schedule PP customers who are Directly Served from a substation are assigned a revenue increase that is 50% of the overall revenue percentage increase that the interim increase represents.

The Parties also agreed to implement the interim rate increase on a cents per kWh basis.

In addition, in its Rate Case Updates, HECO proposed a revenue decoupling mechanism (that included a revenue balancing account that would remove the linkage between electric revenues and sales) to be effective upon the issuance of an interim decision and order. The Parties agreed that HECO should be allowed to establish a revenue balancing account as described in its Rate Case Updates to be effective on the date of the interim decision and order.

C.

HRS § 269-16(d)

HRS §269-16(d) requires that the commission make every effort to complete its deliberations with respect to a public utility's request for a rate increase "as expeditiously as possible and before nine [(9)] months from the date the public utility filed its completed application." The statute further provides that, if such deliberations are not concluded within the nine (9)-month period, the commission shall render an interim decision within one (1) month after the expiration of the nine (9)-month period. The commission may postpone its interim rate decision an additional thirty (30) days if the commission considers the evidentiary hearing incomplete. The interim decision may allow an increase in rates if the commission believes the public utility is probably entitled" to such interim rate relief.¹²

HECO filed its Application on July 3, 2008. On January 12, 2009, the commission extended the filing date of HECO's Application to December 26, 2009. On January 15, 2009, the Parties submitted a Stipulated Procedural Order containing a Schedule of Proceedings, which the commission approved in its Order Approving, with Modifications, Stipulated Procedural Order Filed on January 15, 2009, issued the same day.

By letter filed January 20, 2009, HECO requested that the commission amend the Schedule of Proceedings in the Stipulated Procedural Order so as to set the specific date by which an interim decision and order should be rendered in this docket as July 2, 2009. On

¹² The commission has previously determined:

[O]ur decision in this docket should be consistent with precedent and that computational errors committed by the parties should be accounted for. However, in deciding interim rate relief, the commission's scrutiny of both the record and the discourse during the evidentiary hearings is a search for showings of probable entitlement. This search is necessarily quick, unlike the careful deliberation the commission consistently accords issues in rendering final decisions. In deciding interim rate relief, the commission must often postpone determinations of reasonableness with respect to certain unresolved matters. Otherwise, the speed with which HECO is given interim rate relief would be affected.

Interim Decision and Order No. 11559, filed on March 31, 1992, in Docket No. 6998, at 7.

January 21, 2009, the commission granted HECO's request with the issuance of its Order Amending Stipulated Procedural Order. Thus, the Schedule of Proceedings includes the issuance of an Interim Decision and Order by July 2, 2009.

D.

Interim Rates

For interim purposes, the allocation of revenue increases to the various rate classes should reflect the proposal agreed upon by the Parties and be imposed as a percentage of bill surcharge (exclusive of the energy cost adjustment clause and other surcharges), and the interim rate increase should be implemented in the manner stipulated to by the Parties.

E.

Refund

The commission emphasizes that the findings and adoption here of the various amounts reflected in Exhibit A is for the purpose of this Interim Decision and Order, only. Where the Parties agree, the commission accepted such agreement for the purposes of this Interim Decision and Order. It does not, in any way, commit the commission to accept any of these amounts in its final decision. The commission notes that all of its decisions and rulings in this regard are subject to a more detailed review and analysis. The commission's final decision will reflect this review and analysis of all estimates and proposals of the Parties. Based on the record, it appears that HECO will probably be entitled to the level of relief that the commission grants in this Interim Decision and Order.

HECO will be required to refund to its customers any excess collected under this Interim Decision and Order, together with such interest as provided for by HRS § 269-16 (d), if the final increase approved by the commission is less than the total interim increase granted by this Interim Decision and Order.

III.

Ultimate Findings of Fact and Conclusions of Law

The commission makes the following findings of fact and conclusions of law.

1. HRS § 269-16(d) mandates the commission make every effort to complete its deliberations and issue a final decision in public utility rate cases within nine (9) months after a completed application has been filed by a utility. If such deliberations are not concluded within the nine (9)-month period, the commission shall render an interim decision within one (1) month after the expiration of the nine (9) -month period. The interim decision may be postponed an additional thirty (30) days if the commission considers the evidentiary hearing incomplete.

2. HECO filed its Application on July 3, 2008. On January 12, 2009, the commission extended the filing date of HECO's Application to December 26, 2009. On January 15, 2009, the Parties submitted a Stipulated Procedural Order containing a Schedule of Proceedings, which the commission approved in its Order Approving, with Modifications, Stipulated Procedural Order Filed on January 15, 2009, issued the same day. By letter filed January 20, 2009, HECO requested that the commission amend the Schedule of Proceedings in the Stipulated Procedural Order so as to set the specific date by which an interim decision and order should be rendered in this docket as July 2, 2009. On January 21, 2009, the commission granted HECO's request with the issuance of its Order Amending Stipulated Procedural Order. The Schedule of Proceedings includes the issuance of an Interim Decision and Order by July 2, 2009.

3. Pursuant to HRS § 269-16(d), the commission may grant an interim increase, subject to refund and interest, pending a final decision, if the commission believes that the public utility is probably entitled to an increase in its rates.

4. Based on the evidentiary record before the commission and the Stipulated Settlement Letter, HECO is probably entitled to an increase in its rates.

5. Without interim relief, HECO may be denied an opportunity to earn a fair return on its rate base.

6. For interim decision purposes, pending a final decision in this docket, it is appropriate and reasonable to adopt an average depreciated rate base of \$1,252,883,000, a rate of return on the rate base of 8.45% per cent, and test year results of operations, as set forth in Exhibit A, which is attached to this Interim Decision and Order.

7. An interim increase in revenues of \$79,811,000, or an increase of 6.16 per cent over revenues at current effective rates, is just and reasonable.

8. Interim commission approval of the revenue balancing account described in an attachment to the Stipulated Settlement Letter (and Statement of Probable Entitlement, as Exhibit 2) to be effective on the date of this Interim Decision and Order.

IV.

Orders

THE COMMISSION ORDERS:

1. HECO may increase its rates, on an interim basis, to such levels as will produce, in the aggregate, \$79,811,000, in additional revenues for test year 2009 (6.16 per cent more than at current effective rates).

2. HECO may implement the revenue balancing account as described in an attachment to the Stipulated Settlement Letter (and Statement of Probable Entitlement, as Exhibit 2), as of the date of this Interim Decision and Order.

3. As soon as is reasonably practicable, HECO shall submit a revised schedule of rates and charges, reflecting the increase in rates allowed by this Interim Decision and Order. HECO shall also serve a copy of the revised schedule upon the Consumer Advocate and the DOD.

4. Upon issuance of the final Decision and Order in this proceeding, any amount collected pursuant to this interim rate increase that is in excess of the increase determined by the final decision and order to be just and reasonable shall be refunded to HECO's ratepayers, together with interest as provided by HRS § 269-16(d).